MINUTES

MONTANA HOUSE OF REPRESENTATIVES
57th LEGISLATURE - REGULAR SESSION
LOCAL GOVERNMENT FUNDING SELECT

Call to Order: By **CHAIRMAN BOB STORY**, on February 13, 2001 at 6:20 P.M., in Room 137 Capitol.

ROLL CALL

Members Present:
Rep. Bob Story, Chairman (R)
Rep. Gary Branae (D)
Rep. Eileen Carney (D)
Rep. John Esp (R)
Rep. Jeff Mangan (D)
Rep. Ken Peterson (R)
Rep. Karl Waitschies (R)
Rep. David Wanzenried (D)

Members Excused: None.

Members Absent: None.

Staff Present: Eddye McClure, Legislative Branch
Greg Petesch, Director of Legal Services of Legislative Council
Jenni Stockman, Committee Secretary

Please Note: These are summary minutes. Testimony and discussion are paraphrased and condensed.

Committee Business Summary:
Hearing(s) & Date(s) Posted: HB 124, 3/12/2001
Executive Action:

The meeting was called to order, and **Madalyn Quinlan from OPI**, presented the amendment they had drafted concerning the biennial appropriation. They decided that the motor vehicle revenue should be credited to school districts as a part of their local contribution. They decided they could do the same thing with the aeronautic money and the corporate license tax fund. She mentioned that there were still schools that had a concern with the cash flow because of the 70%, 30% split.

Rep. Story said those things would resolve themselves.
Madalyn Quinlan said there was also the issue that **Gwen Anderson, Teton County Superintendent of Schools**, raised with 2001 as the base year there was no mil levy for some of the funds so no motor vehicle revenue would be going to her bus depreciation fund. She wanted to see the block grant going into the district and being distributed from there.

Rep. Story wondered if the problem would be there no matter what year was chosen for the base year. **Madalyn Quinlan** said it depended on what funds it was put to. The general property tax would be increased in one fund because of the revenues targeted there, and from there they would go some fund that had not received money for that year. Each school district would be different because they each had their own budget.

Rep. Waitschies asked what she thought of choosing between two different years, or an average of three.

Madalyn Quinlan thought one advantage of block grants was that what the school district had in their 2002 funds was what they would receive the next year.

Since the education issues where over, **Rep. Story**, said they would spend the rest of the meeting discussing how they came up with the growth factor, the calculation for the cities and counties, and the timing of payments.

Rep. Mangan asked if they could review what was currently in the bill.

Brad Simshaw, Dept. of Revenue, reviewed by taking them to the section in the bill where it showed how the counties, cities, county-wide retirement and schools were effected. He used liquor tax as his example to show how they took the total and distributed that across the 56 countries.

Rep. Story asked which year all the numbers were based on. **Brad Simshaw** told him it varied for the different categories, but he liquor, wine and tax numbers were from fiscal year 1999. They made an adjustment by revenue estimate to 2001.

It was asked if there was any correlation of those growth rates. **Brad Simshaw** said they had not looked at 2000 numbers to see how close they were. He went on to say that the source for all the vehicle items came from the Department of Justice database for year 1998, for the county basis. They had to do some calculations to figure the growth from 1998 to 2001, so they could distribute based on those mils. He said they were now in the HB 540 system which is a flat fee system and now he would have to do an estimate on what HB 540 would have collected if it had been in place the whole time.

Rep. Mangan asked if the 12 million number they saw on their sheets had been estimated as if HB 540 was in place the whole year.

Brad Simshaw said that the 12 million was with HB 540 in place for the whole year. It represented HB 540 flat fee revenue which would go to counties and local government, not cities and towns. The number they tried to tie to was the number that had been worked out by the Legislative Services Division. It was a fiscal year 2002 number with a 1.5% growth anticipated each year because it was no longer based on a number of vehicles. He pointed out two positives brought about by HB 124:
1) Welfare would have 13.959 million. This shows the value of what savings and expenditures to county government would be if the state would assume the responsibilities of that system.
2) District courts. The county government currently pays revenue on this. If HB 124 passed, these would become a state function which would save the county government.
A chunk of the reimbursement category was not estimated, but the actual number was fixed in law phasing out 10% each year starting 2000.

Rep. Story said the next item was the growth rate that was applied to them.

Rep. Mangan wondered if the budget was off and what the budget office thought of the growth rate.

Amy said she was had not gotten to look at that yet, but would be looking into what growth rate should be applied to the reimbursement portion of it. She thought that was a fixed amount, so she was not sure what growth rate would be put on so the revenue would flow into the general fund.

Rep. Story said it was actually a negative growth rate that was applied to them.

Rep. Mangan wanted to know if the Budget Office agreed with the current growth rate or not. If they did not agree, he wondered what their position was.

The committee decided that the Budget Office should come to the next meeting because where they stood on it could change everything.

Mike Kadas, Mayor of Missoula, had a suggestion for redistributing back to the cities and counties. The way it is done now, he explained, is that there is a pool and the first thing done is to make every government whole. The mechanism, everyone gives 50% of CPI and then the leftovers would be distributed based on the population. He suggested they eliminate the CPI adjustment because this would have a positive effect on growing cities, but would also positively effect the areas that were stagnant or declining as they would receive a reasonable share.

Rep. Story asked if they would be held at the original share if they never had any growth in population.

Mike Kadas said they would not, because in the first year everyone would be kept whole, in the second year everyone would be kept whole based upon the first year plus a 3% more total. This distributed based on population would reward the growing places and give money to frozen places.

Gordon Morris thought rather then working it in HB 124, they should go back to the original intent of the interim committee which was that this growth issue had to be studied over the next interim and they had to come up with an appropriate mechanism that would help them deal with both growth and decline. Putting it in could give serious consequences and damage the success of HB 124.

Rep. Peterson wondered if, in the meantime, the money was held or put into interest. He also said he agreed with Mayor Kadas' plan.

Harold Blattie, Stillwater County Commissioner and Vice-Chair of the interim committee, said there had not been enough time to take a thorough look at a proper distribution method to reward growth. If growth was not put in, some of the counties would be opposed to this bill. He recognized that there could be a problem for faster growing communities. He thought the mechanism that was in the bill should be left there to be considered at a later date.

Rep. Mangan asked what Mike Kadas' plan would do to the figures.

Brad Simshaw thought there would not be much impact because the figures where only base figures.

Judy Paynter, Dept. of Revenue had them look on page 65 of "Simplification in the 21st Century" at the entitlement shares.***{Tape : 1; Side : A; Approx. Time Counter : 0}*** The base for fiscal year 2001 was 352 and the growth would go to 363 for fiscal year 2002. That creates a 1.1 million distribution in 2002 and 2003.

Rep. Story thought local government would have the concern that a temporary distribution put into the bill could become the permanent method. It may be more difficult to change later, as it may be locked down. No matter when the permanent method was put into place there would still be the growth problem of some counties growing and others declining.

Rep. Peterson asked what the distribution method was that was in place.

Rep. Story said it was currently the CPI method, which puts the total reimbursements to local government at 60 million dollars. It would grow up to about 3 million, which would be distributed to each county a potential growth of what the CPI is. If the demand was higher then the first year they would get a proportion of that. Money left over would be distributed according to population. To take the CPI method out would mean the money would follow people, rather than money following money.

Rep. Wanzenried thought they should wait until the budget office gave their presentation. If they were to vote now there would be no consensus.

Rep. Esp had a question concerning the chart on page 65 of "Simplification in the 21st Century". He wondered if they were talking about the 5 million dollars over the next two years and how they would be distributed, or if they were talking about an additional growth to that 5 million.

Rep. Story said they were actually talking about the short term and whether they wanted to change it to a long term method and leave it.

Rep. Waitschies thought they should go with what was there and work on it at a later time.

Rep. Wanzenried moved to adopt Mayor Kadas proposal.

Rep. Peterson supported the motion. His county would get the growth from the populated areas and he thought the money should follow.

Rep. Waitschies did not support the motion. Small counties, such as his, would just keep getting smaller and would soon not be able to meet their basic costs.

Rep. Esp said it depended on what money was going in or out in this equation on how he would vote.

The motion to adopt Mayor Kadas' plan failed 3 to 5.

John Laughten, who had also been on the interim committee thought they had run out of time when they were putting the proposal together. He recognized that there was a real issue of the fast versus the slow growth. He thought it was unjust either way and the best thing to do was just pick a method and use it. He figured they had 3 options:
1) The original formula
2) CPI taken out, or
3) A Compromise
He said if the committee wanted, they could come back with a few compromises to choose from. To choose one way or the other could really hurt the bill.

Rep. Mangan thought they should have already had that done before the issue was discussed, but thought they should go ahead and do it now.

Rep. Wanzenried wondered if the compromise would be a formula for the future, or only until the next time the interim group meets.

John Laughten told him it could be done either way, but he thought it should be permanent.

Rep. Peterson wondered who would bring the compromise back.

John Laughten thought it should be brought back by representatives from the fast, slow, county, city, west, east to cover all angles.

Rep. Story told him that would be appreciated and told them to have it ready for the Thursday meeting after transmittal break.

Harold Blattie reminded them that the committee had representatives from all areas, and had two years to put this together. It was ill-advisable, in his opinion, to come up with something in two or three days. He thought they should just leave things the way they were.

Sen. Elliot said the CPI makes sense for the small counties ,and the original makes sense for the larger counties. He wondered why they could not be combined together in a simple manner.

Larry Finch, Dept. of Revenue went over the distribution chart,**EXHIBIT(lfh36a01)** which addressed the issue of the timing of where the quarterly distributions of the entitlement share to the local government and the interest impact of when those particular distributions would be made.

Table 1 shows the total dollar amount of revenue that flows into the local government. The Total Revenue column shows the $134,110,565 that would now flow to the state general fund. Table 1 shows how that money would be distributed in a fiscal year.

Table 2 shows the current law and the law proposed in HB 124. In option 1, they made the first payment be on September 30th and they used a 6% interest rate. They came up with the fact that HB 124 would give approximately 1,000,000 less then the current law. In option 2, the first payment was on September 15th. This makes the net impact be approximately 1,000,000 more then under current law.

Rep. Peterson asked what would happen if the interest would fluctuate.

Larry Finch told him it would be distributed. His charts were to simply show that it would work however, and the local government would be revenue neutral.

Rep. Story brought up the amendment that Gordon Morris had brought the first night. In that amendment the payments would be made July 1st and October 1st so the quarter would be up front. **Rep. Story** wondered what the present receipts were so they would not create an interest deficit for the state and a windfall for the counties. For the chart, he pointed out, motor vehicles had a big month in January and the other months were divided evenly. He wondered if this was how it was in reality.

Larry Finch said he believed so.

Mayor Kadas thought it all sounded fine. There were two issues, interest and cash flow. The thing not to do would be to give them 2 payments at the end of November and May, as that would create a money crunch.

Rep. Wanzenried moved to adopt Table 2, option 2 from the chart.

{Tape : 2; Side : A; Approx. Time Counter : 0}

Greg Petesch brought it to everyone's attention that they had already adopted a quarterly payment, and the only question left was when the dates should be established.

The committee adopted the motion to use September 15th as the first payment date and quarterly payments after that unanimously.

Rep. Story said they were getting into the issues of finances. He recommended that before any member of the committee change anything, they should first meet with a member of the Dept. of Revenue to have an analysis done.

Rep. Wanzenried wondered if they could discuss the revenue sources the way they were now without a proposal. **Rep. Story** said they could. **Rep. Wanzenried** did not think it made sense to bring the motor vehicle fees to the state.

Judy Paynter told him there were 2 reasons that had been done.
1) Gaming was not in the mix then, so when they did the tables they came up negative in at the state level. This meant that instead of it being an entitlement share from the state to the counties and cities, they needed an entitlement share for local government to pay the state government. They decided instead to move all the vehicle revenue into the state.
2) Not enough money was going out to the counties. They had to make the entitlement share payment big enough so it would not need to be altered. By putting the vehicle revenue in they were able to accomplish that.

Rep. Story agreed, but could not remember if they decided to distribute to the counties and cities or just with the counties. He asked the Dept of Revenue to bring the analysis of those options so the committee would be able to look at them.

Rep. Wanzenried wondered if Judy Paynter was saying that by bringing more money to the state level there would be less temptation for the legislation to use that money for anything other then that entitlement program.

Rep. Story said that had been the idea because the bigger the amount is, the harder it is to move it.

John Laughten said it came down to trust. The legislature will do anything they want, but it had been decided that a big lump sum would be easier to see if it was moved. Smaller sums would be easier to miss.

Mayor Kadas said it was more than trust, and more than just big or small. Diversity leads to stability. Some areas would be growing while others were declining. He did not like the fact that he would have to give up revenue sources that grew at 2% each for one that grew at 3%. He thought they were trying to give 2 major programs back to the state and that's why they would need all the revenue from local government. Local government would try to absorb welfare and district courts and then they would need the money to pay for them. He suggested they take welfare out because then they would have room to work.

John Laugten agreed that some revenue sources do grow fast, but the downside was the revenue bills. They needed to be stabilized by giving up a little bit of the diversity and growth.

Rep. Wanzenried wondered why the gaming revenue was added late.

Judy Paynter said gaming revenue had been added late because they decided it was unstable. Cities were concerned about the reliability in the long run.

Rep. Story said it was all money that is presently being collected at state level and distributed from there.

Rep. Wanzenried wondered if there was any information that would substantiate the cities concern about the gaming revenue.

Judy Paynter answered that there was no downturn in the gaming revenue.

Rep. Story said the risk was that it would drop to zero. People would then have to decide if they would cut the program of raise the property taxes.

Rep. Wanzenried wondered how it would effect the state and was told that it would have the same effect on the state.

ADJOURNMENT

Adjournment: 7:45 P.M.

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REP. BOB STORY, Chairman

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JENNI STOCKMAN, Secretary

BS/JS